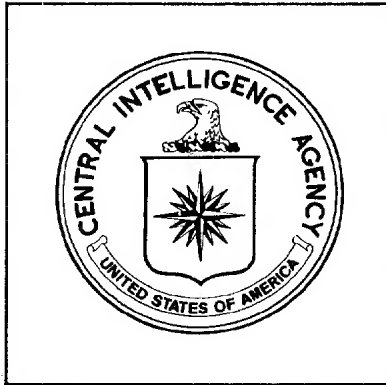


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**Latin America**

**REGIONAL AND  
POLITICAL ANALYSIS**

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State Department review completed

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This publication is prepared for regional specialists in the Washington community by the Latin America Division, Office of Regional and Political Analysis, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Chile: Violations of Human Rights

1,3 Reports of gross violations of human rights in Chile, which had nearly ceased earlier this year, are again on the rise. [redacted] information reaching the US embassy that the Pinochet government is reverting to the practices that have jeopardized its international standing since the 1973 coup.

1,3 This backsliding comes at a particularly bad time for Chile, since apparent improvement in the human rights situation was helping improve its image abroad. Critics will now have additional ammunition for their attacks on the Chilean regime and their appeals to boycott it.

1,3 Chile's National Intelligence Directorate is apparently behind the recent increase in torture, illegal detentions, and unexplained "disappearances." The Directorate's chief, Colonel Manuel Contreras, is a close confidant of Pinochet, who acclaimed the organization in a recent press interview for its "decisive role" in bringing extremism under control. Contreras answers directly to the President, and it is unlikely that he would act without the knowledge and approval of his superior.



Colonel Manuel Contreras

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1, 3 Most of the Directorate's targets now appear to be Socialists, but some Communists and Christian Democrats are also victims. A campaign against Communist Party leaders last year largely immobilized that organization, and the security services are apparently turning to other opponents. The Directorate is reportedly disregarding government decrees intended to protect individual rights.

1, 3 The Directorate's detention facility at Cuatro Alamos is said to be in operation again. This site was largely abandoned after a decree in January 1976 empowered the Supreme Court president and the interior minister to inspect--without prior notice--areas suspected of being used for torture. Neither official appears to have exercised this authority since last year.

1  
2  
3 Pinochet stated this week that the emergency measures in effect under the state of siege will be enforced as long as necessary "to repress drastically any attempt that might become a threat to internal security or domestic peace." Following his recent crackdown on former president Frei's Christian Democratic Party and on outspoken democratic labor leaders, Pinochet has made clear that he will move harshly against anyone who runs afoul of his government.

3 The President may believe that the cutoff in US aid has removed Washington's leverage against his regimes on the human rights issue. He may also be buoyed by the gradual improvement in the country's economic situation. In any case, reports of increased repression are sure to leak out, refueling the human rights controversy.

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Chile: Economic Situation and Outlook for 1977

2  
Gradually recovering world copper prices and rising noncopper exports should provide Chile some relief from the harsh fiscal and monetary measures of recent years. After two years of severe import curtailment in response to the drastic downturn of copper prices of late 1974 and the need to meet large foreign debt repayment obligations, the military junta plans a 24-percent increase in imports this year. The gain will spur a recovery in real GNP from the severely depressed 1975-76 levels, which averaged about 11 percent below 1974, and should further aid in reducing Chile's triple-digit inflation.

2  
Unlike most LDCs of comparable development and sophistication, Chile had to slash imports--and thus domestic income and employment--to cope with the payments problems stemming from the OPEC oil price hike and world recession. Its extremely weak international credit rating practically ruled out access to commercial funds; world criticism of its human rights practices severely limited new official economic assistance and made foreign debt renegotiation difficult at best. The Chilean populace has complained little about the austerity because of the threat of government repression and, more important, because many citizens--if not most--still feel they are better off than under the previous Marxist regime of Salvador Allende.

Economic Reforms, Payments Adjustment, 1974-76

1,2  
Inheriting an economy in chaos after Allende's downfall in September 1973, the military government immediately set out to restructure the economy along free-market lines and to restore Chile's international credit rating.

--The size of the public sector has been reduced from 50 percent to 30 percent of GDP through the return of most expropriated firms and agricultural lands to their former owners and through sale of other public enterprises to private investors.

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- Prices for most goods and interest rates have been freed to seek market levels.
- Foreign exchange and import controls have been largely dismantled and tariffs cut.
- Noncopper exports have been encouraged by devaluing the peso roughly in line with domestic inflation.
- Compensation has been arranged for the former owners (mainly US) of the copper holdings expropriated by Allende.
- Most barriers to new direct foreign investment have been eliminated; Chile's open courtship of foreign investors led to its withdrawal from the Andean Pact in late 1976.

Before the reforms got very far, rising oil import prices and plummeting copper export prices created a balance-of-payments crisis. The situation was further complicated by the need to repay large foreign debt obligations accumulated during the Allende years and before. Although Santiago managed with great difficulty to obtain \$750 million in official foreign capital, including \$200 million in debt relief, it still had to cut imports by 19 percent to balance its international accounts for 1975. The impact of the necessary fiscal and monetary restraint was severe.

- Industrial production initially dropped 23 percent and in 1976 was still 14 percent below the 1974 level.
- Real GDP declined 13 percent in 1975 and only partly recovered in 1976.
- Unemployment peaked at 14.5 percent of the labor force in 1975.
- Real wages, which had been allowed to plummet in late 1973, were cut further in 1974-75 and have since recovered only slightly.
- The downturn also discouraged potential direct foreign investment.

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Although the government cut its budget deficit sharply, major emphasis was placed on credit restraint to the private sector. Real money supply, cut 15 percent in 1975, was permitted to rise a little in 1976; credit policy remained extremely tight throughout the period. The inflation rate dropped only slightly in 1975, to 341 percent, but declined to 174 percent in 1976.

1, 2  
Partly because of reduced domestic demand, the junta has achieved striking success in its vigorous promotion of noncopper exports--mostly agricultural commodities, chemicals, and metal products. The government has streamlined export administration, facilitated export financing, lifted most export restrictions, and introduced export tax incentives. As a result of these efforts, noncopper exports totaled \$756 million in 1976, 30 percent above 1974 and triple the 1973 level. By mid-1976, thanks to rising noncopper earnings, booming copper production, moderate recovery in world copper prices, and short-term capital inflows attracted by soaring interest rates, the balance of payments had improved considerably. The junta took advantage of the improvement to terminate its foreign debt renegotiation efforts and to rebuild foreign reserves. Although peso devaluation was slowed and tariffs were further cut, fiscal and monetary measures caused imports for the year as a whole to drop an additional 8 percent.

#### Outlook for 1977

1, 3  
This year, the military government intends to use its improved foreign reserve position and the small additional gain expected in export earnings to permit an increase in imports sufficient to restore real GNP to the 1974 level. Although this will require some easing of austerity, the government hopes that increased supply will permit continued progress against inflation. It also intends to avoid the debt renegotiation hassle and to assert its independence from the US and other critics of its human rights practices by sharply reducing borrowing from multilateral and bilateral sources. Reliance will be placed mainly on commercial bank and supplier credits.

#### Balance of Payments

3  
Exports will likely rise about 7 percent in 1977, to \$2.1 billion. Copper shipments will remain roughly at last year's level of 980,000 tons, but an expected

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## Chile: Balance of Payments

Million US \$

	1974	1975	1976	1977
Trade balance	-56	-278	312	40
Exports (f.o.b.)	2,134	1,498	1,952	2,080
Copper	1,551	835	1,196	1,260
Other	583	663	756	820
Imports (c.i.f.)	-2,190	-1,776	-1,640	-2,040
Net services and transfers	-241	-350	-382	-388
Of which: interest	-197	-306	-322	-328
<b>Current account balance</b>	<b>-297</b>	<b>-628</b>	<b>-70</b>	<b>-348</b>
Private capital	145	366	749	549
Direct investment	-98	50	80	91
Repatriated capital	134	63	112	60
Suppliers' credits	108	90	110	145
Commercial banks	1	163	447	253
Official capital	597	747	463	178
Multilateral	125	226	193	50
Bilateral	472	521	270	128
Of which: debt relief	287	231	21	0
Debt amortization (medium and long term)	-367	-506	-533	-555
<b>Capital account balance</b>	<b>375</b>	<b>607</b>	<b>679</b>	<b>172</b>
Errors and omissions	-77	-31	0	0
<b>Reserve movement</b>	<b>1</b>	<b>-52</b>	<b>609</b>	<b>-176</b>

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rise in average copper prices will boost earnings moderately. Stronger demand for noncopper exports in markets developed since 1973 should allow such sales to rise to \$820 million, despite an expected weakening in Chile's competitive position because of slower peso devaluation.

1  
3  
Santiago's desire to obtain foreign capital without exposing itself to political recriminations over its human rights practices has led it to cut back on US and International Monetary Fund aid this year. Thus, official capital inflows will fall to around \$180 million, compared with \$460 million in 1976. Chilean missions to the US and Western Europe are seeking commercial bank loans to partly fill the gap. Direct investment will remain low mainly because of past bureaucratic delays in approving new projects. Full debt amortization payments for 1977 will require \$555 million, slightly more than in 1976. Total net capital inflows will consequently shrink to about \$170 million, compared with \$680 million in 1976.

1,3  
Santiago is expected to increase imports to about \$2 billion. Higher domestic wheat yields and low wheat import prices will permit a reduction in food import spending. Most of the increase in imports will come in fuels, raw materials, and intermediate goods for industry. This category will expand an estimated 30 percent to rebuild depleted inventories. Bringing total imports to the target level will require about \$175 million more than Chile now expects to receive from trade and capital flows net of debt service. Given the recent improvement in the Chilean credit rating, we believe that Santiago will find it possible to raise this additional amount from private sources.

#### Demand and Inflation

1,3  
Although the junta is still pursuing a strong anti-inflation policy, it intends to ease austerity. Real wages are to be increased about 5 percent. The junta began to relax its restrictive monetary policy slightly in the first quarter. Lower reserve ratios for the banking system are easing a credit crunch experienced in late 1976; nominal short-term interest rates had declined by March to 11 percent monthly, compared to 13 percent in December. On May 1, Santiago announced a moderate program of tax reductions, increased social spending, and

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wage increases for government workers. These steps are expected to result in a government deficit of around 12 percent of expenditures this year--up from the original target of 7.9 percent but still well below the 17 percent deficit of 1976. Growth in the money supply is still expected to decline from last year's 217 percent to about 150 percent. The attack on inflation has also been aided by the two-month voluntary price freeze by private industry just ended. On balance, we estimate that inflation will decline moderately in 1977, to around 130 percent.

#### Output and Employment

1,3 With somewhat stronger demand, real GDP should grow 6.5-7 percent this year, coming close to the 1974 level of output. Finished goods inventories in some industries are likely to hold industrial growth to 10 percent, compared with 12.2 percent last year. Thanks to good weather, agricultural production could be up as much as 7 percent above last year. Construction activity, which began picking up in the fourth quarter of 1976, should grow this year for the first time since 1974. Since copper mines are now operating at full capacity, little further gain can be expected over last year's record production of 1 million tons. Employment will rise some 4.5 percent this year; because both the labor force and productivity will increase moderately, the unemployment rate will decline only slightly to 12.2 percent.

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Colombia: Narcotics Trafficking and the Judicial System

2 According to a recent report in the Bogota press, special protective services for Colombian judges will be provided by the Ministry of Defense. The action is being taken to avoid attacks of the type that have recently cost the lives of several magistrates, particularly those who deal with cases involving narcotics traffickers.

2 The catalyst for the defense minister's decision was the murder of a judge in Cali earlier this month. The judge, known for his honesty and integrity, was slain by members of a drug group after bribery attempts failed to stave off an adverse ruling against an imprisoned colleague. To make the message even more forceful, the judge was murdered as he was returning to a narcotics seminar for local magistrates that was being visited by the minister of justice.

/ Colombia's judicial system is considered by many to be a prime obstruction to any narcotics control program. Although corruption is widespread in the various local enforcement agencies, numerous drug traffickers are arrested and brought to trial. At present, however, members of the judiciary are subjected by traffickers and other criminal elements to a two-pronged attack consisting of large cash bribes and physical intimidation.

/ In June 1975, the government, acting under state of siege authority, placed narcotics trafficking offenses in the category of major crimes to be tried before military courts. The move was intended primarily to speed up the judicial process and to get around the corrupt practices that had typified the criminal court system's handling of major drug cases. The judicial process has since been returned to the civil courts, however, and many major traffickers are again able to gain acquittal or release through bribery or other tactics.

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Guyana-USSR: Fishing Agreement

Guyana and the USSR signed a framework agreement for fisheries cooperation in Georgetown on May 17. [REDACTED]

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1, 2, 4 [REDACTED] The USSR apparently offered to participate in a joint fishing company, train Guyanese personnel on board Soviet trawlers, construct a deep-water port facility, and undertake marine resource surveys of Guyana's coastal zones.

1, 3, 4 Moscow has been negotiating since last fall for access to a Guyanan port and the right to fish in Guyanan waters in order to expand the operations of its Cuban-based Caribbean fishing fleet. Reciprocal rights given the Soviets in most fishing agreements signed with less developed countries have provided Moscow with refueling bases as well as repair, maintenance, storage, and support facilities. In addition to the accommodations for the Soviet fishing fleet in Guyana, the Soviet navy reportedly is also interested in gaining permission for port visits.


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1, 4 Moscow has signed fisheries agreements with at least 38 less developed countries to which Moscow has extended \$230 million of assistance. In Latin America, although the Soviet Union has signed fisheries agreements with Argentina, Chile, and Peru, only the Peruvian accord is now active. The Soviets are assisting in the construction of the Paita fishing complex in northern Peru.


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4 The USSR also has established 18 joint fishing companies with less developed countries and has offered such ventures to at least eight others. Joint companies, like the one proposed in Guyana, give the Soviets access to the 200-mile zones of the coastal states and often enables Moscow to increase its hard-currency earnings.

4 Most less developed countries have increased their fish catch as a result of Soviet cooperation, and in some cases these countries have established viable fishing industries. 

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